

ORIGINAL



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MEMORANDUM

DOCKET CONTROL

2013 JUL 11 PM 1 44

TO: Docket Control

FROM: Steven M. Olea
Director
Utilities Division

DATE: July 11, 2013

RE: STAFF REPORT FOR THE APPLICATION OF ARIZONA ELECTRIC POWER COOPERATIVE, INC. FOR AUTHORIZATION TO BORROW FUNDS TO MAKE ITS ACCELERATED FUNDING PAYMENT TO THE NATIONAL RURAL ELECTRIC COOPERATIVE ASSOCIATION RETIREMENT SECURITY PLAN. (DOCKET NO. E-01773A-13-0121)

Attached is the Staff Report for Arizona Electric Power Cooperative, Inc.'s application for authorization to refinance certain existing debt. Staff recommends approval of the requested authorization.

Any party to this procedure who wishes may file comments to the Staff Report with the Commission's Docket Control by 4:00 p.m. on or before July 25, 2013

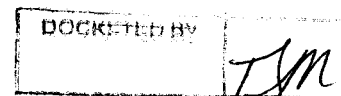
SMO:AFF:red

Originator: Armando F. Fimbres

Arizona Corporation Commission

DOCKETED

JUL 11 2013



Service List for: Arizona Electric Power Cooperative, Inc.
Docket No. E-01773A-13-0121

Mr. Michael M. Grant
Gallagher & Kennedy, P.A.
2575 East Camelback Road, STE 1100
Phoenix, Arizona 85016-9225

**STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

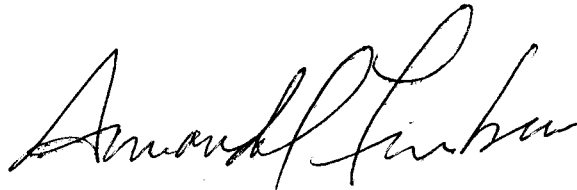
**ARIZONA ELECTRIC POWER COOPERATIVE, INC.
DOCKET NO. E-01773A-13-0121**

**APPLICATION OF ARIZONA ELECTRIC POWER COOPERATIVE, INC.
FOR
AUTHORIZATION TO BORROW FUNDS**

JULY 11, 2013

STAFF ACKNOWLEDGMENT

The Staff Report for Arizona Electric Power Cooperative, Inc., Docket No. E-01773A-13-0121 is the responsibility of the Staff members listed below: Armando F. Fimbres is responsible for the review and financial analysis of the Company's application.

A handwritten signature in black ink, appearing to read "Armando Fimbres", written in a cursive style.

ARMANDO F. FIMBRES
EXECUTIVE CONSULTANT III

EXECUTIVE SUMMARY
ARIZONA ELECTRIC POWER COOPERATIVE, INC.
DOCKET NO. E-01773A-13-0121

On April 29, 2013, Arizona Electric Power Cooperative, Inc. ("AEPCO" or "Cooperative"), an Arizona class "A" public service corporation and non-profit, member-owned cooperative located in Benson, Arizona, filed an application requesting authorization to borrow funds to make its accelerated funding payment to the National Rural Electric Cooperative Association ("NRECA") Retirement Security Plan.

AEPCO requests Commission authorization to borrow up to \$6,142,020 from the National Rural Utilities Cooperative Finance Corporation ("CFC") in the form of a 10-year amortizing loan at an interest rate of 2.9 percent to finance the prepayment of a portion of AEPCO's and its share of Sierra's future pension contributions.

As of December 31, 2012, AEPCO's capital structure consisted of 3.7 percent short-term debt, 61.6 percent long-term debt, and 34.8 percent equity. Issuance of the proposed financing debt results in a pro forma capital structure composed of 3.8 percent short-term debt, 62.2 percent long-term debt and 34.1 percent equity. Staff calculated a pro forma debt service coverage ("DSC") ratio of 1.40. The pro forma DSC results show the Cooperative has sufficient funds to pay all obligations.

Staff concludes that issuance of the proposed debt financing for the purposes stated in the application is within AEPCO's corporate powers, is compatible with the public interest, is consistent with sound financial practices and will not impair its ability to provide services.

Staff recommends authorizing AEPCO to borrow up to \$6,142,020 in the form of a 10-year amortizing loan at 2.9 per cent per annum from CFC to finance the prepayment of a portion of AEPCO's and its share of Sierra's future pension contributions, as described in its Application.

Staff further recommends authorizing AEPCO to engage in any transaction and to execute any documents necessary to effectuate the authorizations herein granted.

Staff further recommends that the Cooperative provide to the Utilities Division Director, a copy of the loan documents executed pursuant to the authorizations granted herein, within 30 days of the execution of the loan, and also file a letter in Docket Control verifying that such documents have been provided to the Utilities Division.

Staff further recommends that any authorization to incur debt granted in this proceeding terminate by December 31, 2013.

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INTRODUCTION

On April 29, 2013, Arizona Electric Power Cooperative, Inc. ("AEPCO" or "Cooperative"), an Arizona class "A" public service corporation and non-profit, member-owned cooperative located in Benson, Arizona, filed an application requesting authorization to borrow funds to make its accelerated funding payment to the National Rural Electric Cooperative Association ("NRECA") Retirement Security Plan.

PUBLIC NOTICE

On May 31, 2013, the Cooperative filed an affidavit of publication verifying public notice of its financing application. The Cooperative published notice of its financing application in *The Arizona Daily Star* and in *The Kingman Daily Miner* on May 20, 2013. *The Arizona Daily Star* is a newspaper of general circulation in the County of Pima, Arizona, and *The Kingman Daily Miner* is a newspaper of general circulation in the City of Kingman, County of Mohave, Arizona. The affidavit of publication is attached (Attachment A) along with a copy of the Notice.

BACKGROUND

AEPCO is a generation cooperative which supplies all or most of the power and energy requirements of its five Arizona Class A member cooperatives.¹ AEPCO is also a member of Sierra Southwest Cooperative Services, Inc. ("Sierra"), which provides staffing services for most of AEPCO's, as well as the Southwest Transmission Cooperative, Inc.'s ("SWTC"), personnel requirements.²

AEPCO's current rates were approved in Decision No. 72055, dated January 6, 2011.

On July 5, 2012, AEPCO filed a rate application that remains pending.

PURPOSE AND DESCRIPTION OF THE FINANCING

AEPCO requests Commission authorization to borrow up to \$6,142,020 from the National Rural Utilities Cooperative Finance Corporation ("CFC") in the form of a 10-year amortizing loan at an interest rate of 2.9 percent to finance the prepayment of a portion of AEPCO's and its share of Sierra's future pension contributions. In a separate finance application,³ SWTC is seeking similar financing approval for SWTC's and its share of Sierra's future pension obligations.

¹ Five Class A members in AZ - Duncan Valley Electric Cooperative ("DVEC"), Graham County Electric Cooperative ("GCEC"), Mohave Electric Cooperative ("MEC"), Sulphur Springs Valley Electric Cooperative ("SSVEC"), Trico Electric Cooperative ("Trico"); One Class A member in CA - Anza Electric Cooperative ("Anza")

² AEPCO and Sierra are Class B members.

³ Docket No. E-04100A-13-0120.

STAFF ANALYSIS

Staff's analysis is illustrated on Schedule AFF-1. Column [A] reflects the Cooperative's historical financial information for the year ended December 31, 2012. Column [B] presents pro forma financial information that modifies Column [A] to reflect the proposed \$6,142,020, ten-year amortizing loan at 2.9 per cent per annum.

Debt service coverage ratio ("DSC")

DSC represents the number of times operating income will cover required principal and interest payments on short-term and long-term debt. A DSC greater than 1.0 indicates that cash flow from operations is sufficient to cover debt obligations. A DSC less than 1.0 means that debt service obligations cannot be met by cash generated from operations and that another source of funds may be needed to avoid default under certain conditions.

Schedule AFF-1, Column [A] shows that for the year ended December 31, 2012, the Cooperative's DSC is 1.45. The pro forma DSC for the Cooperative under the scenario described above for Column [B] is 1.40. The pro forma DSC results show the Cooperative has sufficient funds to pay all obligations.

Capital Structure

As of December 31, 2012, AEPCO's capital structure consisted of 3.7 percent short-term debt, 61.6 percent long-term debt, and 34.8 percent equity. Issuance of the proposed financing debt results in a pro forma capital structure composed of 3.8 percent short-term debt, 62.2 percent long-term debt and 34.1 percent equity.

Encumbrance

Arizona Revised Statutes ("A.R.S.") § 40-285 requires public service corporations to obtain Commission authorization to encumber certain utility assets. The statute serves to protect captive customers from a utility's act to dispose of any of its assets that are necessary for the provision of service; thus, it serves to preempt any service impairment due to disposal of assets essential for providing service. Pledging assets as security typically provides benefits to the borrower in the way of increased access to capital funds or preferable interest rates, and it is often an unavoidable condition for procurement of funds for small or financially stressed entities.

The Cooperative conveyed to Staff that the proposed financing does not involve an encumbrance.

Proper Use of Funds

Staff concludes that the prepayment of pension contributions using the currently available low interest rates is a proper use of funds, and it is in the public interest.

COMPLIANCE

There are no compliance issues with AEPCO.

CONCLUSION AND RECOMMENDATIONS

Staff concludes that issuance of the proposed debt financing for the purposes stated in the application is within AEPCO's corporate powers, is compatible with the public interest, is consistent with sound financial practices and will not impair its ability to provide services.

Staff recommends authorizing AEPCO to borrow up to \$6,142,020 in the form of a 10-year amortizing loan at 2.9 per cent per annum from CFC to finance the prepayment of a portion of AEPCO's and its share of Sierra's future pension contributions, as described in its Application.

Staff further recommends authorizing AEPCO to engage in any transaction and to execute any documents necessary to effectuate the authorizations herein granted.

Staff further recommends that the Company provide to the Utilities Division Director, a copy of the loan documents executed pursuant to the authorizations granted herein, within 30 days of the execution of the loan, and also file a letter in Docket Control verifying that such documents have been provided to the Utilities Division.

Staff further recommends that any authorization to incur debt granted in this proceeding terminate by December 31, 2013.

FINANCIAL ANALYSIS

Selected Financial Information

	[A] ¹		[B] ²	
	<u>12/31/2012</u>		<u>Pro Forma</u>	
1 Operating Income	\$	16,295,960	\$	16,295,960
2 Depreciation & Amort.		10,345,165		10,345,165
3 Income Tax Expense		0		0
4				
5 Interest Expense		8,792,833		8,963,847
6 Repayment of Principal		9,589,123		10,126,405
7				
8				
9				
10				
11 DSC				
12 [1+2+3] ÷ [5+6]		1.45		1.40
13				
14				
15				
16				
17 Capital Structure				
18				
19 Short-term Debt		10,533,047 3.7%		11,070,329 3.8%
20				
21 Long-term Debt		177,652,240 61.6%		183,256,978 62.2%
22				
23 Common Equity		100,376,057 34.8%		100,376,057 34.1%
24				
25 Total Capital	\$	288,561,344 100.0%	\$	294,703,364 100.0%
26				
27				

¹ Column [A] is based on financial information for the year ended December 31, 2012.

² Column [B] is Column [A] modified to reflect issuance of a \$6,142,020 10-year, amortized loan at 2.9 percent per annum.

ORIGINAL
GALLAGHER & KENNEDY
P.A.
ATTORNEYS AT LAW



MICHAEL M. GRANT
DIRECT DIAL: (602) 530-8291
E-MAIL: MMG@GKNET.COM

RECEIVED
2013 MAY 31 P 4:40
AZ CORP COMMISSION
DOCKET CONTROL

2575 EAST CAMELBACK ROAD
PHOENIX, ARIZONA 85016-9225
PHONE: (602) 530-8000
FAX: (602) 530-8500
WWW.GKNET.COM

May 31, 2013

HAND DELIVERED

Docket Control
Arizona Corporation Commission
1200 W. Washington St.
Phoenix, AZ 85007

Re: *Affidavits of Publication; AEPCO's Retirement Prepayment Financing Request;*
Docket No. E-01773A-13-0121

Dear Sir or Madam:

Enclosed are the original and 13 copies of the Affidavits of Publication confirming published notice in this matter in the *Arizona Daily Star* and the *Kingman Daily Miner*. Your assistance in relation to this matter is appreciated.

Very truly yours,

GALLAGHER & KENNEDY, P.A.

By:

Michael M. Grant

MMG/plp
10421-72/3498493
Enclosures

cc w/enclosures: Armando Fimbres, Utilities Division (delivered)
Charles Hains, Legal Division (delivered)

Original and 13 copies filed with Docket
Control this 31st day of May, 2013.



ARIZONA DAILY STAR

Tucson, Arizona

STATE OF ARIZONA)
COUNTY OF PIMA)

Debbie Capanear, being first duly sworn deposes and says: that she is the Advertising Representative of **TNI PARTNERS**, a General Partnership organized and existing under the laws of the State of Arizona, and that it prints and publishes the Arizona Daily Star, a daily newspaper printed and published in the City of Tucson, Pima County, State of Arizona, and having a general circulation in said City, County, State and elsewhere, and that the attached ad was printed and

Legal Notice

published correctly in the entire issue of the said Arizona Daily Star on each of the following dates, to-wit:

may 20, 2013

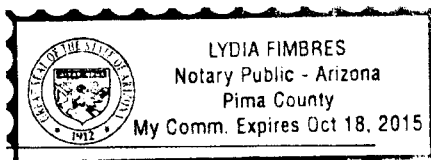
Debbie Capanear

Subscribed and sworn to before me this 20 day of

May, 2013

Lydia Fimbres

Notary Public



My commission expires

AD NO.

8020722

**PUBLIC NOTICE OF
AN APPLICATION FOR AN
ORDER AUTHORIZING DEBT TO
FINANCE A PREPAYMENT
OF A PORTION OF ITS
PENSION CONTRIBUTIONS
BY THE ARIZONA ELECTRIC
POWER COOPERATIVE, INC.**

The Arizona Electric Power Cooperative, Inc. ("AEP CO") has filed an Application with the Arizona Corporation Commission for an order authorizing it to borrow an amount up to \$6,142,020 to finance the prepayment of a portion of its pension contributions (Docket No. E-01773A-13-0121). The application is available for inspection during regular business hours at the office of the Commission in Phoenix, Arizona, and AEP CO's offices at 1000 South Highway 80, Benson, Arizona 85602. It may also be viewed on the Commission's website at www.azcc.gov using the eDocket function, located at the bottom of the website home page. Intervention in the Commission's proceedings on the application shall be permitted to any person entitled by law to intervene and having a direct substantial interest in this matter. Persons desiring to intervene must file a Motion to Intervene with the Commission which must be served upon AEP CO and which, at a minimum, shall contain the following information:

1. The name, address and telephone number of the proposed intervenor and of any person upon whom service of documents is to be made if different than the intervenor.
2. A short statement of the proposed intervenor's interest in the proceeding.
3. Whether the proposed intervenor desires a formal evidentiary hearing on the application and the reasons for such a hearing.
4. A statement certifying that a copy of the Motion to Intervene has been mailed to AEP CO.

The granting of Motions to Intervene shall be governed by A.A.C. R14-3-105, except that all Motions to Intervene must be filed on, or before, the 15th day after publication of this Notice.

Publish May 20, 2013
Arizona Daily Star

AFFIDAVIT OF PUBLICATION

Kingman Daily Miner

3015 Stockton Hill Road, Kingman, AZ 86401

web: www.kingmandailyminer.com • e-mail: legals@kingmandailyminer.com

Phone (928) 753-6397, ext. 242 • Fax (928) 753-5661


"Serving Kingman since 1882"

STATE OF ARIZONA)
County of Mohave) ss.

I, Melinda Mauser, being first duly sworn on her oath says:
That she is the Legals Clerk of THE KINGMAN DAILY MINER
An Arizona corporation, which owns and publishes the Miner,
a Daily Newspaper published in the City of Kingman, County of Mohave,
Arizona, that the notice attached hereto, namely,

Public Notice
Ad. No. 324983

Has, to the personal knowledge of affiant, **20th day of May, 2013**
to the **20th day of May, 2013** inclusive without change, interruption or
omission, amounting in **1** insertions, made on the following dates:
54/20/2013

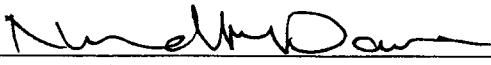
By:  _____
Legal Clerk, 21st Day of May, 2013

State of Arizona

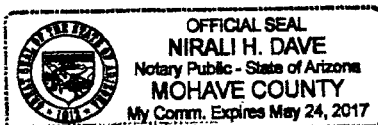
County of Mohave

On this 22 day of May, 2013

Legal Clerk, whom I know personally to be
the person who signed the above document
and she proved she signed it.



Notary Public
My Commission Expires May 24, 2014



(324983)
PUBLIC NOTICE
OF AN APPLICATION FOR AN ORDER
AUTHORIZING DEBT TO FINANCE A
PREPAYMENT
OF A PORTION OF ITS PENSION CON-
TRIBUTIONS
BY THE ARIZONA ELECTRIC POWER
COOPERATIVE, INC.

The Arizona Electric Power Cooperative, Inc. ("AEPCCO") has filed an Application with the Arizona Corporation Commission for an order authorizing it to borrow an amount up to \$6,142,020 to finance the prepayment of a portion of its pension contributions (Docket No. E-01773A-13-0121). The application is available for inspection during regular business hours at the office of the Commission in Phoenix, Arizona, and AEPCCO's offices at 1000 South Highway 80, Benson, Arizona 85602. It may also be viewed on the Commission's website at www.azcc.gov using the eDocket function, located at the bottom of the website home page. Intervention in the Commission's proceedings on the application shall be permitted to any person entitled by law to intervene and having a direct substantial interest in this matter. Persons desiring to intervene must file a Motion to Intervene with the Commission which must be served upon AEPCCO and which, at a minimum, shall contain the following information:

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3. Whether the proposed intervenor desires a formal evidentiary hearing on the application and the reasons for such a hearing.
4. A statement certifying that a copy of the Motion to Intervene has been mailed to AEPCCO.

The granting of Motions to Intervene shall be governed by A.A.C. R14-3-105, except that all Motions to Intervene must be filed on, or before, the 15th day after publication of this Notice.
Published: 5/20/2013
Ad. No. 324983